

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 ERDA-05 AID-05 CEA-01 CIAE-00

CIEP-01 COME-00 DODE-00 FPC-01 H-02 INR-07 INT-05

L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06 SAM-01

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FM AMEMBASSY OSLO

TO SECSTATE WASHDC 2503

INFO AMEMBASSY LONDON

C O N F I D E N T I A L OSLO 4807

E.O. 11652: GDS

TAGS: ENRG NO

SUBJECT: CONTROVERSY OVER COST OF DEVELOPMENT OF STATFJORD OIL/

GAS FIELD

REF: OSLO A-71

1. IN JUNE 1976 INDUSTRY MINISTER GJERDE PUSHED THROUGH NORWEGIAN PARLIAMENT AS ONE OF LAST ORDERS OF BUSINESS BEFORE SUMMER RECESS APPROVAL OF PLANS FOR PHASE II OF DEVELOPMENT OF THE STATFJORD OIL AND GAS FIELD (SEE REFAIR). HE CLAIMED THAT DELAY UNTIL AUTUMN IN CONSIDERATION OF PHASE II PLANS COULD HOLD UP DEVELOPMENT OF FIELD BY A YEAR WITH HARMFUL EFFECTS ON NORWEGIAN ECONOMY AND EMPLOYMENT. TOTAL COST OF PHASE II WAS PUT AT \$3.72 BILLION (\$1 EQUALS 5.5 KRONER) PLUS \$1.5 BILLION IF AN OIL PIPELINE TO NORWAY WAS BUILT.

2. ONE DAY AFTER PARLIAMENTARY APPROVAL OF PHASE II PLANS, PRIVATE PARTICIPANTS IN DEVELOPMENT OF STATFJORD FIELD (MOBIL IS OPERATOR FOR STATFJORD) LED BY SHELL SUGGESTED THAT CONSTRUCTION OF UP TO SIX SMALLER PLATFORMS AS PART OF PHASE II MIGHT BE CONSIDERABLY CHEAPER THAN CONSTRUCTION OF TWO LARGE PLATFORMS PROVIDED FOR IN APPROVED PHASE II PLANS. CONTRACTS

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FOR CONSTRUCTION OF THE FIRST OF THE TWO

LARGE PLATFORMS (SECOND PLATFORM WILL BE ORDERED LATER) WERE HELD UP WHILE THIS ISSUE WAS STUDIED AND WHILE A DISPUTE OVER THE CHOICE OF AN ENGINEERING FIRM FOR PHASE II WAS SETTLED. THE LARGE PLATFORM APPROACH HAS NOW BEEN AGREED UPON AND BROWN AND ROOT CHOSEN, BUT ORDERS FOR FIRST PLATFORM HAVE STILL NOT YET BEEN PLACED. IN ADDITION, SHORTLY AFTER PHASE II PLANS HAD BEEN APPROVED AND ALMOST IMMEDIATELY AFTER PARLIAMENT RECESSED FOR SUMMER, STATOIL, NORWAY'S STATE OIL COMPANY, AND MINISTRY OF INDUSTRY "DISCOVERED" LETTER FROM MODIL WRITTEN BEFORE PARLIAMENT COMPLETED CONSIDERATION OF PHASE II PLANS WHICH INDICATED THAT ESTIMATED COST OF PLANS HAD RISEN NEARLY \$900 MILLION. MAJOR REASON FOR PRICE ESCALATION WAS ONE-YEAR DELAY IN DEVELOPMENT OF FIELD AS RESULT OF CORRESPONDING DELAY IN CONSTRUCTION OF PHASE I PRODUCTION PLATFORM. FAILURE OF GJERDE AND STATOIL TO BRING COST ESCALATION TO ATTENTION OF PARLIAMENT WHILE IT WAS CONSIDERING PHASE II PLANS CREATED FUROR IN PRESS. (COST EXCALATION FIGURES WERE ALLEGEDLY BURIED IN MOBIL LETTER WHICH CONTAINED FIGURES FOR PREPARATION OF 1977 NORWEGIAN BUDGET.) WHILE MOBIL HAS EXCAPED VIRTUALLY ALL BLAME FOR THIS DEVELOPMENT, STATOIL HAS BEEN SEVERELY CRITICIZED ON GROUNDS THAT AS 50 PERCENT PARTICIPANT IN STATEFJORD IT SHOULD BE ON TOP OF WHAT IS GOING ON RE DEVELOPMENT OF THE FIELD. SOME CRITICISM HAS ALSO BEEN DIRECTED AT GJERDE ON GROUNDS OF MINISTERIAL RESPONSIBILITY. HE HAS SAID HE WILL APOLIGIZE WHEN PARLIAMENT RECONVENES.

4. NOW, JUST BEFORE PARLIAMENT IS TO RECONVENE, COST ESTIMATES FOR PHASE II HAVE RISEN ANOTHER \$181 MILLION AND STATOIL PLANS TO ASK FOR AN ADDITIONAL \$636 MILLION FOR A NATURAL GAS LIQUIDS FRACTIONING PLANT IN NORWAY FOR THE FIELD.

5. UNDER SECRETARY OF INDUSTRY THULIN HAS ADMITTED TO E/C COUNSELOR PRIVATELY THAT MINISTRY OF INDUSTRY PUSHED PHASE II PLANS THROUGH PARLIAMENT TOO PRECIPITOUSLY AND THAT CONSIDERATION OF PLANS BY PARLIAMENT THIS FALL WOULD NOT HAVE DELAYED PROJECT SIGNIFICANTLY. HE DOES NOT BELIEVE, HOWEVER, THAT GJERDE WILL BE CRITICIZED GREATLY WHEN PARLIAMNET RECONVENES BECAUSE, HE SAYS, NORWEGIA'S INDUSTRY AND MOST NON-SOCIALISTS BELIEVE GJERDE IS BEST MAN FOR JOB AND WOULD NOT LIKE TO SEE

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HIM REPLACED. THULIN BELIEVES THAT MAJOR FIRE OF NON-SOCIALISTS WILL BE DIRECTED AGAINST STATOIL WHICH MANY NON-SOCIALISTS WOULD LIKE TO SEE SCALED DOWN.

6. COMMENT: GJERDE IS UNLIKELY TO ESCAPE FROM ALL BLAME AS MATTER IS TOO GOOD A POLITICAY ISSUE TO PASS UP. HOWEVER, EMBASSY AGREES THAT STATOIL WILL RECEIVE BRUNT OF THE CRITICISM WHICH MAY CARRY OVER INTO 1977 GENERAL ELECTIONS. STATOIL'S

EXTREMELY AMBITIOUS MANAGING DIRECTOR, ARVE JOHNSEN, WAS UNDER SECRETARY OF INDUSTRY IN FORMER LABOR GOVERNMENT. HE HAS TENDED TO USE STATOIL AS PRO-LABOR POLITICAL INSTRUMENT, AND EVEN THE LABOR PARTY HAS HAD RESERVATIONS REGARDING HIS AMBITIOUS PLANS FOR STATOIL. (WHEN THE GOVERNMENT BOUGHT BP'S MARKETING OPERATIONS IN NORWAY EARLIER THIS YEAR, IT GAVE STATOIL ONLY A MINORITY INTEREST IN THE NEW COMPANY INSTEAD OF MAKING IT A STATOIL SUBSIDIARY AS ARVE JOHNSEN HAD SOUGHT.)

7. ISSUE HAS REVIVED QUESTION OF ESTABLISHMENT OF A SEPARATE PETROLEUM MINISTRY, AND AN INTER-AGENCY COMMITTEE HAS BEEN ESTABLISHED TO STUDY THE MATTER. COMMITTEE WILL ALSO CONSIDER WHETHER ENFORCEMENT OF OFF-SHORE SAFETY REGULATIONS SHOULD BE GIVEN TO COMMUNAL DEPARTMENT (HOME OFFICE) AS WELL AS OTHER REORGANIZATIONAL MATTERS INVOLVING MINISTRIES.

8. ASIDE FROM ROLE OF STATOIL, CONTROVERSY IS NOT EXPECTED TO HAVE MAJOR IMPACT ON GOVERNMENT'S OIL POLICY, AND GOVERNMENT IS GOING AHEAD WITH PLANS TO SUBMIT TO PARLIAMENT THIS FALL PROPOSAL FOR ISSUANCE OF 20 NEW BLOCKS SOUTH OF 62 DEGREES IN STATFJORD AREA AND ALONG LINE OF PROPOSED GAS TRUNK LINE TO CONTINENT IN ORDER PROVE UP RESERVES. HOWEVER, CONTROVERSY MAY STRENGTHEN HANDS OF "GO SLOW" FORCES AND SLOW DOWN DISCUSSION MAKING PROCESS IN PARLIAMENT. (ALL MAJOR ISSUES INVOLVING OIL/GAS DEVELOPMENT, INCLUDING IMPORTANT ACTIONS BY STATOIL, MUST BE SUBMITTED TO PARLIAMENT FOR APPROVAL.) AS A RESULT IT WILL BE EVEN MORE DIFFICULT THAN IN PAST FOR NORWAY TO MOVE RAPIDLY IN OIL DEVELOPMENT.

ANDERS

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